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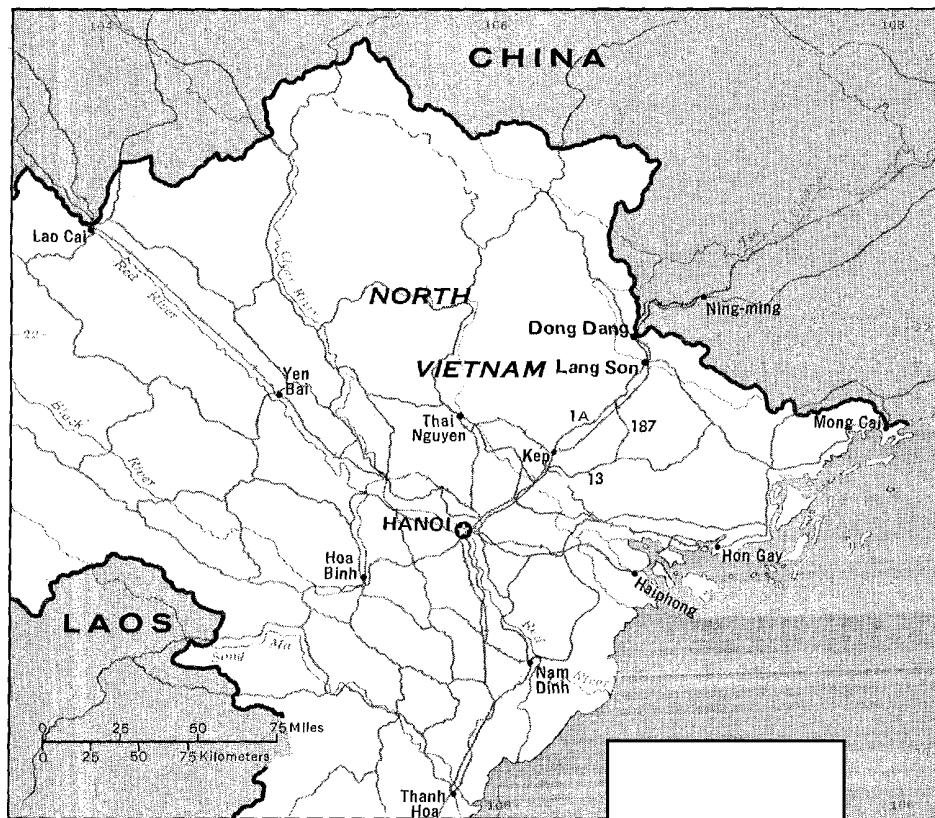
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Heavy Truck Traffic Between Lang Son and Hanoi



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VIETNAM: Sightings of southbound truck traffic on the main route between the Chinese border and Hanoi suggest that the North Vietnamese have organized an effective alternative to rail transport from China.

On the night of 7 June, US pilots reported that there was an average of eight to ten southbound trucks per mile along the 90-mile stretch of Route 1A between Lang Son and Hanoi. They also observed heavy traffic on parts of Route 13, which connects with Route 187 from Lang Son.

* * * *

There has been little change in the fighting in South Vietnam. Although South Vietnamese airborne troops linked up with An Loc's defenders on 8 June, Route 13 farther south is still blocked. Heavy artillery attacks are continuing on the town and on Fire Support Base Tan Khai to the south. In the north, Da Nang was hit early on 9 June by scattered artillery and rocket attacks, which caused fairly heavy casualties. South Vietnamese defenders are continuing to press outward from Kontum City, and government forces south of the city have been augmented for another attempt to clear the Kontum Pass area. (Map on reverse)

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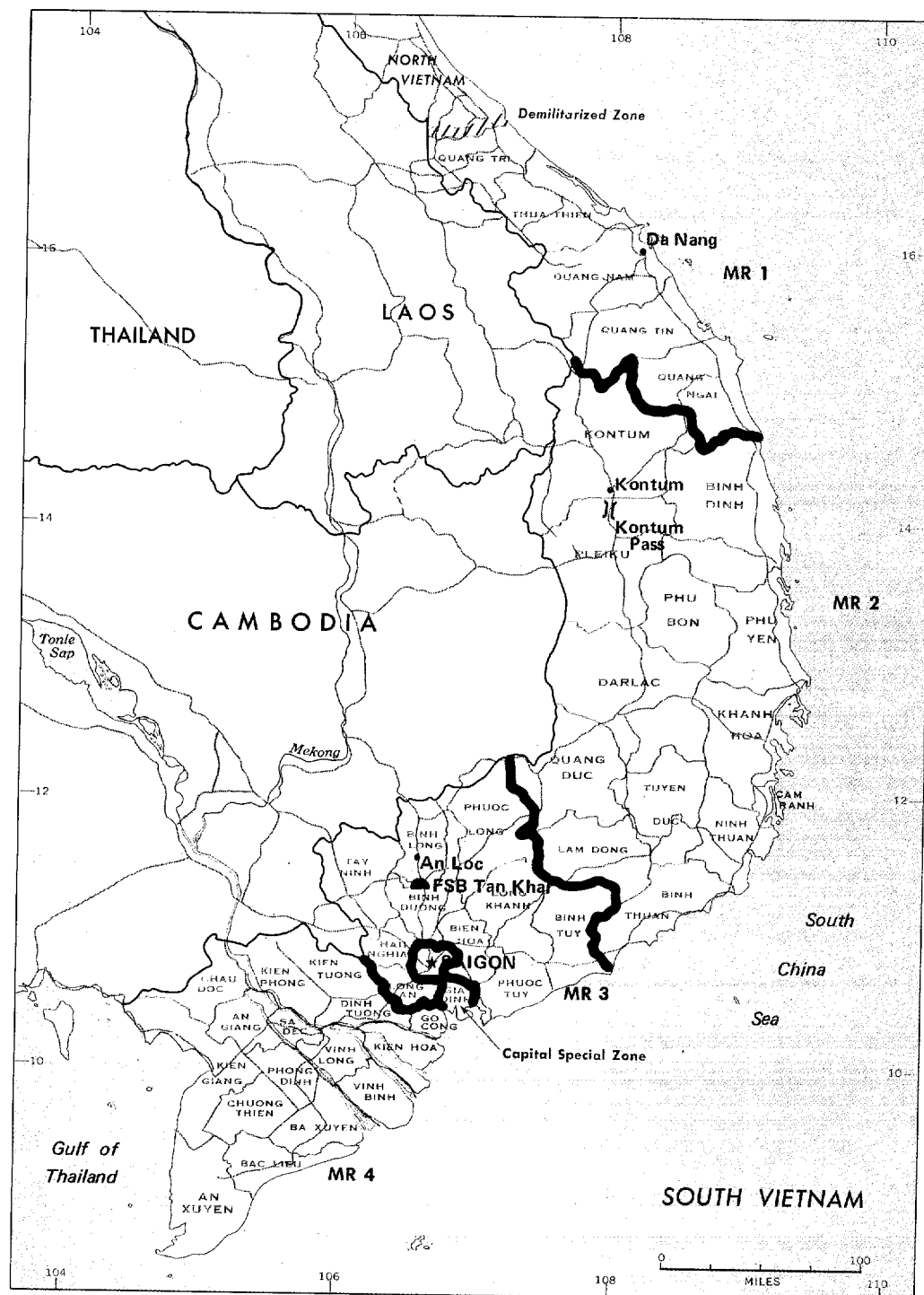
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USSR: The appointment of A. P. Lyashko to the chairmanship of the Ukrainian Council of Ministers yesterday marks another setback for Politburo member Shelest.

Lyashko, who was kicked upstairs from the number-two post in the Ukrainian party organization to the largely honorific position of chief of state in the republic three years ago, has long been at odds with Shelest. His new job not only gives him more important responsibilities, but may also put him in line for candidate membership on the Politburo in Moscow. Lyashko's relationship with party boss Brezhnev is obscure, but he has praised the General Secretary publicly in the past, and his promotion presumably could not have taken place without Brezhnev's concurrence.

Lyashko's promotion reflects Shelest's loss of influence over key appointments in the Ukraine. It follows the recent designation of Politburo member Shcherbitsky, a Brezhnev man, to succeed Shelest as the Ukraine's first secretary. The demotion of Shelest, now merely one of nine deputy premiers in Moscow, probably stemmed from a number of long-standing differences with Brezhnev over the conduct of Ukrainian affairs, resource allocations and foreign policy. The timing of his ouster from the Ukrainian leadership on the eve of the summit, plus the rumors that he was opposed to proceeding with President Nixon's visit, lend credibility to the speculation that the latter may have been the last straw.

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ISRAEL: The failure of Labor Party leaders to deal with pressing domestic problems could hurt the party in next year's elections.

According to the US Embassy, in recent months the Labor Party leadership has seemed insufficiently responsive to popular discontent over such domestic problems as inflation, housing shortages, resentment over the privileges granted new immigrants, rising consumer expectations, and labor difficulties.

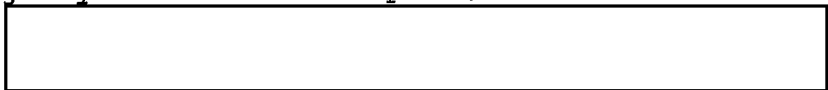
The government's continued support of Justice Minister Shapiro in the face of mounting public criticism of his role in an oil company scandal is an example of the government's flouting of the public will. Shapiro attempted to block an investigation into allegations of widespread theft, bribery, and corruption in Netivei Neft, the government company that produces and markets oil from the Sinai fields. He defended the managing director of the company who was ultimately forced to resign, and he has also been the target of public ire because of the high fees paid to the lawyers defending the company. Although it appeared that Shapiro would be forced to resign, the Lod massacre distracted public attention from the issue and Mrs. Meir subsequently informed party leaders that Shapiro would remain in the government. The party is expected to have a difficult time defending the government's domestic record even without the Shapiro albatross, and some party officials believe that his continued presence in the cabinet will hurt the party at the polls in the 1973 Knesset elections.

The Shapiro affair also raises questions about the future of Finance Minister and party strongman Pinhas Sapir. Although Shapiro is known to be a member of Sapir's faction in the party, it is Sapir's

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supporters who have been calling for Shapiro's resignation. The embassy reports that persistent rumors have been circulating that Sapir has let his control over the party slip and that his publicly expressed desire to resign after the 1973 elections is sincere. The embassy notes that if Sapir is abandoning loyalists like Shapiro, the rumors may be true.



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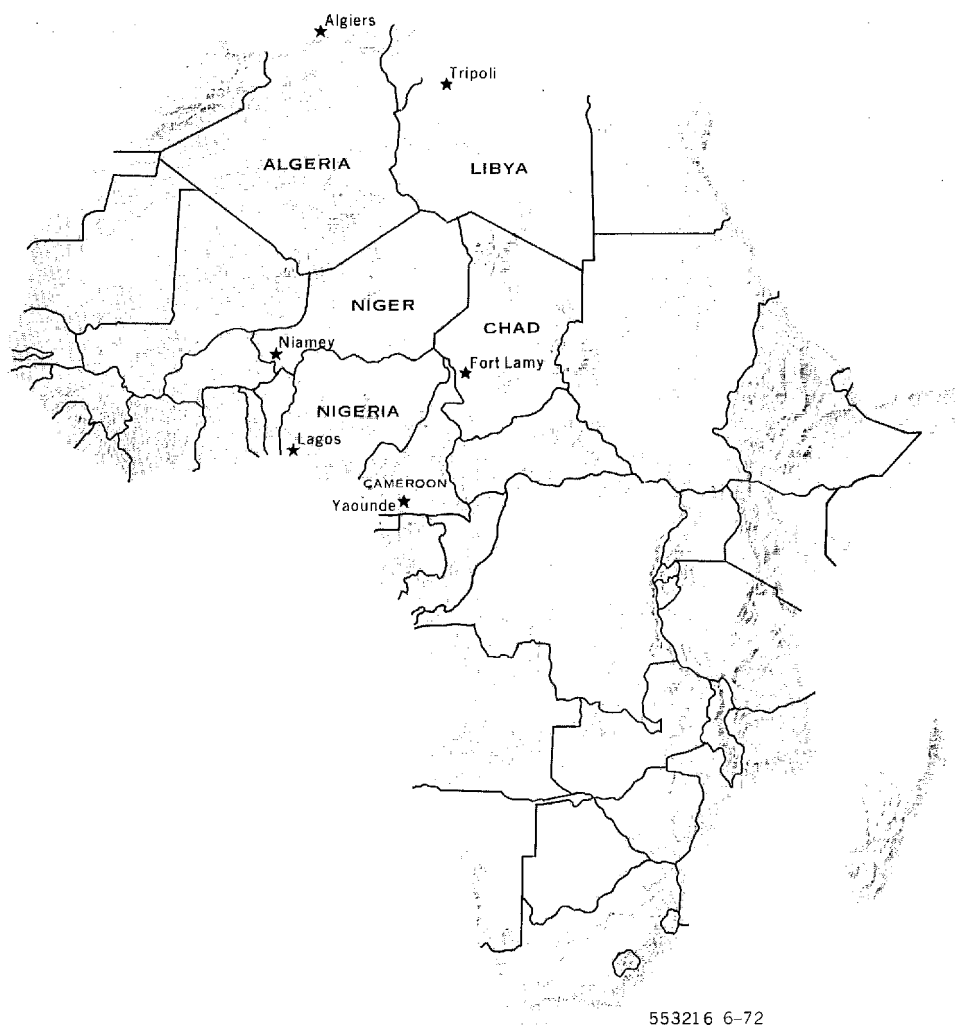
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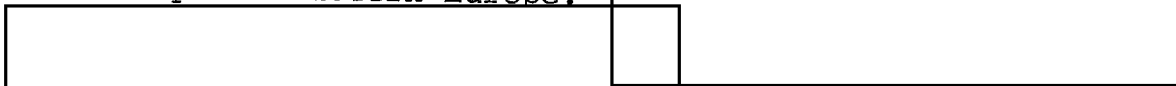
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NATO: The allies are generally pleased with the results of the Moscow summit, but some are concerned that the summit documents may undercut Western positions at a Conference on Security and Cooperation in Europe (CSCE).

The Dutch, backed by other allies, have requested clarification of several items in the summit's declaration of basic principles. They ask, for example, whether the term "peaceful coexistence" is acceptable in East-West agreements now that the US has accepted it in both Peking and Moscow. In the past, the allies have avoided the term because it implied acceptance of the so-called Brezhnev doctrine.

The Dutch also have inquired whether the US, in negotiating the declaration's references to increased East-West contacts and exchanges, tried to gain more explicit Soviet acceptance of "freer movement" of people, ideas, and information. The Dutch have been the strongest supporter of the argument that the West should push hard on this point at a CSCE, and they are curious whether the Soviet-US language is the best that can be expected on freer movement at a conference.

The Dutch also wonder why the European section of the summit communiqué endorses broad principles of territorial integrity, independence, and renunciation of force, but does not explicitly apply these principles to all nations regardless of economic, political, or social systems. The US has argued at NATO that in preparing a declaration of principles for a CSCE, the West should maintain that these principles are applicable to all states in order to undermine Soviet claims to special relationships in Eastern Europe.



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EGYPT - WEST GERMANY: Cairo's restoration of diplomatic relations with Bonn on 8 June represents, in part, an effort to provide some balance to Egypt's dependence upon the Soviet Union. Moscow's increased presence and influence in Egypt since the 1967 war are viewed uneasily by many Egyptians and have undermined Cairo's continuing claim to nonalignment. The normalization of ties with West Germany does not significantly affect Cairo's reliance on the Soviets, but it will provide another point of contact with the West. In addition, Cairo may hope that the restoration of relations will be economically beneficial. A bilateral accord signed on 8 June provides for a West German bank loan of some \$50 million for Egypt's Gulf of Suez - Mediterranean pipeline.

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UNITED KINGDOM: The balance-of-payments surplus on current account declined sharply from \$629 million in the fourth quarter of 1971 to \$78 million in the first quarter of 1972. This, along with a pessimistic economic forecast by a prestigious private research institute, portends a steady deterioration of the pound sterling after a strong showing in 1971. A weakened pound is particularly unwelcome for the Heath government at this time because of the substantial foreign exchange costs associated with EC entry in 1973.

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JAPAN: An increasing number of Japanese firms are establishing overseas plants to produce goods for sale in the United States and Western Europe. Mitsubishi Electric Company, which will begin producing television sets with local firms in Thailand and Mexico, joins other Japanese electronics firms that have set up similar plants in Mexico, Puerto Rico, and the US. The Japanese textile industry also is steadily expanding its overseas production facilities. These moves are part of a general effort by Japan to take advantage of lower cost foreign labor to minimize the effects of its recent restraints on exports, and to reduce growing criticism from Tokyo's major trading partners over rapidly rising Japanese imports.

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YUGOSLAVIA: Western credit policies toward Belgrade may be tightening. A tractor factory in Belgrade is planning to expand plant and equipment by borrowing \$4.7 million from Yugoslav citizens at ten percent interest rather than financing the project in the West. The money will come from private foreign exchange accounts in Yugoslav banks.

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ECUADOR: A new government decree may slow down development of the country's rapidly emerging petroleum industry. The decree would retroactively apply very restrictive legislation to all existing oil company contracts, which the companies believe would make their operations unprofitable. Although most of the oil companies are still engaged in exploratory work on their concessions and have not yet made heavy financial commitments, the Texaco-Gulf consortium is nearing completion of a \$300-million investment in a pipeline and related facilities and will be ready to begin crude oil exports at the end of June. The decree overshadows several weeks of fruitless negotiations between Texaco-Gulf and the government to settle major unresolved financial issues carried over from the ousted Velasco administration. The government's motives in issuing the decree are unclear, but it could be making a gesture to nationalist forces while intending to apply the decree less severely.

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